



IN REPLY REFER TO

**DEFENSE CONTRACT AUDIT AGENCY**  
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PFC 730.5.7

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**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT: Audit Guidance on Performance-Based Payments**

The purpose of this memorandum is to provide a brief overview of performance-based payments and ensure that FAOs take appropriate actions on audit requests regarding performance-based payments. Federal Acquisition Regulation (FAR) 32.113(d) states that performance-based payments are the preferred financing method when the contracting officer finds them practical, and the contractor agrees to their use. Performance-based payments are not authorized for use in conjunction with other methods of contract financing except advance payments and guaranteed loans under certain conditions (FAR 32.1003(c)).

Performance-based payments may be based on (1) performance measured by objective, quantifiable methods; (2) accomplishment of defined events; or (3) other quantifiable measures of results (FAR 32.1002). The procedure for establishing performance-based payments is a two-part process comprised of establishing the performance bases (events or criteria) and establishing the performance-based finance payment amount. As provided for in FAR 32.1004(b)(2), the payment amount may be established based on any rational basis including (but not limited to):

- Engineering estimates of stages of completion;
- Engineering estimates of hours or other measures of effort to be expended in performance of the event or achievement of a performance criterion; or
- The estimated projected cost of performance of particular events.

The contracting officer is responsible for determining what reviews are required for protection of the government's interest (FAR 32.1007(c)). Auditors may be requested to perform pre-award reviews to assist in establishing the value of performance-based events and/or post-award reviews to verify accomplishment or incurred costs associated with the completion of an event or criterion. In addition, the auditor may also be requested to determine whether the contract is in a loss position and, if applicable, whether the contractor is financially capable of completing the contract.

Auditors should be responsive to contracting officers' requests for audit assistance regarding performance-based payments. Issues, disputes, or problems disclosed during performance-based payment reviews should be coordinated with the regional office to ensure that these matters are addressed appropriately. Regions should report recurrent issues, disputes, or problems to Headquarters, PFC. We will coordinate these issues with the appropriate DCMC and buying command personnel. As issues and problems are resolved, subsequent guidance will be issued.

Field audit personnel should direct any questions regarding this memorandum to personnel in the regional office. If regional personnel are unable to answer or have questions of their own, they should contact Mr. Barry Turner, Program Manager; Pricing, Finance and Claims Division at (703) 767-2270.

/Signed/

Lawrence P. Uhlfelder  
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